



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

MAY 21 2004

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-04-00506

Mr. Joseph W. Wood
Director of Finance
St. Mary's Regional Medical Center
Campus Avenue
Lewiston, Maine 04243-7291

Dear Mr. Wood:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report entitled "Review of Medicare Disproportionate Share Hospital Payments Claimed by Saint Mary's Regional Medical Center." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, please do not hesitate to call me or David Lamir at (617) 565-2704 or through e-mail at DLAMIR@oig.hhs.gov. To facilitate identification, please refer to report number A-01-04-00506 in all correspondence.

Sincerely yours,

Michael J. Armstrong
Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Dr. Charlotte S. Yeh, Regional Administrator
Centers for Medicare and Medicaid Services - Region I
U.S. Department of Health and Human Services
John F. Kennedy Federal Building, Room 2325
Boston, MA 02203-0003

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE
DISPROPORTIONATE SHARE
HOSPITAL PAYMENTS
CLAIMED BY SAINT MARY'S
REGIONAL MEDICAL CENTER
FOR FISCAL YEAR ENDING
DECEMBER 31, 2002**



**MAY 2004
CIN A-01-04-00506**

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC at <http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

In April 1986, Congress mandated an explicit disproportionate share hospital (DSH) adjustment for hospitals that serve a large share of low-income patients. A hospital must have a minimum DSH percentage, which differs across hospital groups, to qualify for DSH payments. The amount of the DSH payment a hospital receives is determined by a complex formula involving two fractions: the Medicare fraction and the Medicaid fraction.

Section 1886(d)(5)(F)(vi)(II) of the Social Security Act defines the Medicaid fraction of the DSH calculation as the fraction, the numerator of which is the number of patient days for which the patient was eligible for Medicaid but not entitled to benefits under Medicare Part A, and the denominator as the total number of patient days for the same period. For fiscal year (FY) 2002, St. Mary's Regional Medical Center claimed \$3,399,155 in Medicare DSH reimbursement.

OBJECTIVE

The objective of our audit was to determine whether St. Mary's Regional Medical Center included Medicare Part A paid days in the Medicaid fraction of its Medicare DSH reimbursement calculation for those beneficiaries who are eligible for both Medicare and Medicaid. Our review covered the DSH reimbursement claimed by St. Mary's Regional Medical Center on its as-filed FY 2002 Medicare cost report.

FINDINGS

Contrary to the Social Security Act, St. Mary's Regional Medical Center included 1,341 Medicare Part A paid days in the Medicaid fraction of its DSH calculation. As a result, we determined that its DSH reimbursement amount was overstated by \$433,502. St. Mary's Regional Medical Center included Medicare Part A paid days in the Medicaid fraction because the hospital believed these days were not included in the Medicare fraction provided by CMS.

RECOMMENDATIONS

We recommend that St. Mary's Regional Medical Center:

- Establish procedures to ensure only allowable days are included in the Medicaid fraction of its DSH reimbursement calculation.
- Resubmit its FY 2002 as-filed Medicare cost report excluding the 1,341 Medicare Part A paid days from the Medicaid fraction, thus reducing its claimed DSH reimbursement by \$433,502.

St. Mary's Regional Medical Center Comments

In its response to our draft report, St. Mary's Regional Medical Center agreed with our findings and recommendation.

INTRODUCTION

BACKGROUND

In April 1986, with the passage of the Consolidated Omnibus Reconciliation Act of 1985 (P.L. 99-272), Congress mandated an explicit disproportionate share hospital (DSH) adjustment for hospitals that serve a large share of low-income patients. The DSH adjustment is a percentage add-on payment applied to the diagnosis-related group payment rate. A hospital must have a minimum DSH percentage, which differs across hospital groups, to qualify for DSH payments. The hospital's DSH percentage is derived as the sum of two fractions: the Medicare fraction and the Medicaid fraction.

The Medicare fraction, also known as the SSI percentage, is the number of all Medicare days that are attributable to beneficiaries of Supplemental Security Income (SSI). The CMS determines the SSI percentage by identifying the patients who were entitled to both Medicare Part A and SSI, and divides that number by the total number of Medicare Part A days. The Medicaid fraction is the number of the hospital's patient days of service for which patients were eligible for Medicaid but not entitled to Medicare Part A, divided by the total number of patient days in the same period.

St. Mary's Regional Medical Center is a 233-bed hospital located in Lewiston, Maine. For fiscal year (FY) 2002, St. Mary's Regional Medical Center claimed \$3,399,155 in Medicare DSH reimbursement.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether St. Mary's Regional Medical Center included Medicare Part A paid days in the Medicaid fraction of its Medicare DSH reimbursement calculation for those beneficiaries who are eligible for both Medicare and Medicaid. Our review covered the DSH reimbursement claimed by St. Mary's Regional Medical Center on its as-filed fiscal year (FY) 2002 Medicare cost report. To accomplish our objective we:

- Reviewed St. Mary's Regional Medical Center Medicare cost report, settlement information, and audit work papers.
- Reviewed the procedures utilized by St. Mary's Regional Medical Center in preparing the list of 11,561 Medicaid eligible days used to calculate the \$3,399,155 Medicare DSH claimed reimbursement.
- Identified 1,341 Medicare Part A paid days from the list of 11,561 Medicaid eligible days.
- Judgmentally selected a sample of days from the 1,341 days and confirmed through the Medicare common working file that the days were Medicare Part A paid days.

We did not review the internal controls at St. Mary's Regional Medical Center because a review of such controls was not necessary to accomplish the objectives of our limited scope review.

We performed our fieldwork at the AHS office in Portland, Maine and at St. Mary's Regional Medical Center in Lewiston, Maine during January 2004 and February 2004. St. Mary's Regional Medical Center's comments to our draft report are included in their entirety as EXHIBIT B and summarized on Page 3.

Our review was conducted in accordance with generally accepted government auditing standards.

RESULTS

St. Mary's Regional Medical Center Overstated DSH Days

Contrary to the Social Security Act, St. Mary's Regional Medical Center included 1,341 Medicare Part A paid days in the Medicaid fraction of its DSH calculation. As a result, we determined that its DSH reimbursement amount was overstated by \$433,502.

Section 1886(d)(5)(F)(vi)(II) of the Social Security Act defines the Medicaid fraction of the DSH calculation as the fraction, the numerator of which is the number of patient days for which the patient was eligible for Medicaid *but not entitled to benefits under Medicare Part A*, and the denominator as the total number of patient days for the same period.

St. Mary's Regional Medical Center FY 2002 as-filed Medicare cost report included 11,561 Medicaid eligible days used to calculate the Medicaid fraction of its DSH claimed reimbursement. Our review of St. Mary's Regional Medical Center Medicaid eligible days file showed that the numerator of the Medicaid fraction included 1,341 Medicare Part A paid days. Including the 1,341 days in the numerator of the Medicaid fraction resulted in overstating the Medicaid fraction by nearly 12 percent.

To determine the impact of this overstatement, we then recalculated St. Mary's Regional Medical Center DSH payment, adjusting the Medicaid fraction for mandated qualifying amounts and adjustments to obtain an adjusted Medicaid fraction. Applying this corrected Medicaid fraction to the Federal payments of \$12,261,315 results in a DSH payment amount of \$2,965,653. Comparing this amount to the originally claimed DSH payment of \$3,399,155 results in a \$433,502 reduction to the claimed DSH (See EXHIBIT A).

St. Mary's Regional Medical Center included the 1,341 Medicare Part A paid days in the Medicaid fraction because the hospital believed these days were not included in the Medicare fraction provided by CMS. However, the regulations provide that *CMS will*

determine the number of days entitled to both Medicare Part A and SSI for calculating the Medicare fraction. The hospitals are only responsible for calculating the Medicaid fraction.

RECOMMENDATIONS

We recommend that St. Mary's Regional Medical Center:

- Establish procedures to ensure only allowable days are included in the Medicaid fraction of its DSH reimbursement calculation.
- Resubmit its FY 2002 as-filed Medicare cost report excluding the 1,341 Medicare Part A paid days from the Medicaid fraction, thus reducing its claimed DSH reimbursement by \$433,502.

St. Mary's Regional Medical Center Comments

“St. Mary's Regional Medical Center did include days for those beneficiaries who were eligible for both Medicare and Medicaid (Type 6 days) in its 2002 cost report. These days were included because we were instructed to do so by our Fiscal Intermediary through the instructions received with the cost report. On May 19, 2003, 14 days prior to the due date of the cost report, St. Mary's received revised instructions to not include Type 6 days in the Disproportionate Share (DSH) calculation. The final cost report was not adjusted as it should have [been] to remove the Type 6 days.

St. Mary's has established procedures that clearly identify Type 6 days and will not include these days in the 2003 and future cost reports. St. Mary's will refile the 2002 cost report removing the Type 6 days from the DSH calculation.”

EXHIBITS

St. Mary's Hospital 12/31/2002			OIG	(A)
		AS FILED	REVIEWED	
1	Total Eligible Medicaid Days	11,561	10,220	
2	Total Days	30,338	30,338	
3	Medicaid Fraction (Line 1/Line 2)	0.3811	0.3369	
4	SSI % Fraction	9.61%	9.61%	
5	Total (Line 3 + Line 4)	0.4772	0.4330	
6	Qualifying	0.2020	0.2020	
7	Subtotal (Line 5 - Line 6)	0.2752	0.2310	
8	Adjustment	0.8250	0.8250	
9	Subtotal (Line 7 * Line 8)	0.2270	0.1906	
10	Adjustment Factor	0.0588	0.0588	
11	DSH Factor (Line 9 + Line 10)	0.2858	0.2494	
12	BBA Reduction Factor	0.9700	0.9700	
13	Adjusted (Line 11 * Line 12)	0.2772260	0.2418707	
14	Federal Payments	\$12,261,315	\$12,261,315	
15	DSH Payment (Line 13 * Line 14)	\$3,399,155	\$2,965,653	(B)

(A) St. Mary's overstated eligible Medicaid days by 1,341.

(B) DSH reimbursement reduced by \$433,502.



ST. MARY'S
REGIONAL
MEDICAL
CENTER

May 13, 2004

Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services – Region 1
John F. Kennedy Federal Building
Boston, MA 02203

RE: Report Number A-01-04-00506

Dear Mr. Armstrong:

St. Mary's Regional Medical Center did include days for those beneficiaries who were eligible for both Medicare and Medicaid (Type 6 days) in its 2002 cost report. These days were included because we were instructed to do so by our Fiscal Intermediary through the instructions received with the cost report. On May 19, 2003, 14 days prior to the due date of the cost report, St. Mary's received revised instructions to not include Type 6 days in the Disproportionate Share (DSH) calculation. The final cost report was not adjusted as it should have to remove the Type 6 days.

St. Mary's has established procedures that clearly identify Type 6 days and will not include these days in the 2003 and future cost reports. St. Mary's will refile the 2002 cost report removing the Type 6 days from the DSH calculation.

I appreciate the flexibility and professionalism of your staff as they completed this audit. Please call if you have any questions.

Sincerely,

Joseph W. Wood
Director of Finance

JWW:ltg